DOCUMENT RESUME

ED 405 141 PS 025 159

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TITLE Welfare Reform: New Challenges, Key Questions. Voices for Illinois Children Special Report (Revised Edition).
INSTITUTION Voices for Illinois Children, Chicago.
SPONS AGENCY Annie E. Casey Foundation, Baltimore, MD.; Ford Foundation, New York, N.Y.
PUB DATE Sep 96
NOTE 9p.; This "Special Report" was produced as a part of Voices' State Finances Project. Funding also provided by the Woods Fund of Chicago, Inc.
PUB TYPE Viewpoints (Opinion/Position Papers, Essays, etc.) (120) -- Reports - Descriptive (141)

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS *Children; Child Support; Day Care Centers; Family Programs; *Federal Legislation; Low Income Groups; Nutrition; *Policy Analysis; Public Policy; State Federal Aid; *Welfare Recipients; Welfare Services
IDENTIFIERS Aid to Families with Dependent Children; Child Support Enforcement; Family Support; Food Stamp Program; Illinois; Medicaid; *Personal Responsib Work Opportun Reconcil Act 1996; Supplemental Security Income Program; *Welfare Reform

ABSTRACT

This special report reviews key aspects of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 and its implications for Illinois. The report describes the major stipulations in the federal welfare bill and summarizes the impact on Aid to Families with Dependent Children (AFDC); food stamp, child care, Medicaid, and Supplementary Security Income programs; child support enforcement; and immigrants. The following findings emerge from this policy analysis. Illinois is likely to lack funds to support AFDC because of the work participation and other requirements. Low income families will suffer from cuts to food stamps, and child care providers will have additional burdens of verifying income and citizenship status of recipients. The change in disability assessment will be problematic for children with combined disorders and behavioral problems. The child support provision enables Illinois to use new tools to improve the enforcement of child support payment. Eliminating benefits for legal immigrants will seriously jeopardize thousands of Illinois families. This report challenges policymakers and citizens to consider several issues, including how to provide adequate temporary income support, job availability, and the abilities of local governments to provide services. The report also provides a list of additional sources of information on the welfare bill. (Author/KDFB)

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Special Report

A Periodic Publication of Voices for Illinois Children. September 1996 (revised)

Welfare Reform: New Challenges, Key Questions

In July, Congress passed sweeping changes to federal welfare policy. While the President vetoed two previous welfare reform packages, he signed the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 on August 22, 1996.

The bill ends the more than 60 years of federally guaranteed support of low-income families by:

- restructuring how Illinois will receive federal funds to provide support for low-income families,
- reducing the amount of funds available to move families from welfare to work, and
- creating significant new rules and requirements that families and the state must meet.

The transfer of responsibility of program creation from the federal to the state level presents Illinois with serious new challenges. This *Special Report* reviews key aspects of the federal welfare bill and poses critical questions that Illinois must address in order to successfully move families from welfare to work, create quality early childhood learning environments and protect our most vulnerable Illinoisans --children.

Cash and Employment Assistance

Aid to Families with Dependent Children (AFDC) and the JOBS program provided cash assistance and employment and training opportunities to low-income families in need. AFDC was established in 1935 to provide temporary cash assistance for low-income, unemployed families with children. The JOBS program was the employment component of the federal-state partnership providing education, job search, employment training and child care.

In Illinois, there are currently 475,000 children in 325,000 families enrolled on AFDC. A low-income family of three is eligible for about $377 a month in cash assistance. This program provided a guarantee of support for all needy families through a federal-state government partnership -- for every $1 Illinois spent on programs for low-income families, the federal government reimbursed the state 50¢. Illinois budgeted about $600 million in federal funds to provide cash assistance and job training services to families eligible for AFDC in FY1997.

The new reform ends the AFDC and JOBS programs for low-income families and requires the state to develop new modes of support. The federal welfare bill:

- Ends the federal-state partnership which guaranteed cash assistance for low-income families. Provides Illinois with a lump sum payment (referred to as a **block grant**) of $585 million in FY97 to meet the income, emergency and job training needs of low-income families. While this represents a relatively small decrease in federal funds for this fiscal year (about $15 million), the grant amount is fixed and will not rise for seven years -- even if there is an increase in the number of families in need.

- Eliminates the requirement to **match federal spending** with state spending. Illinois will only have to spend 80% of what we have been spending on cash assistance programs (referred to as "maintenance of effort") in order to receive the entire federal allotment.

- Creates a **lifetime limit** of five years for the receipt of cash and employment assistance. For example, a new mother receives assistance for two years, then leaves the program after marrying. The family will only be eligible for an additional three years during the lifetime of the parent, even if the family were to experience illness, abandonment or other problems. Twenty percent of the families in the program could be exempt from this rule due to "hardship."

- Allows Illinois to impose a "**family cap**" and require **teen parents** to live in adult-supervised settings and attend school. See *Illinois Waivers* inset on page 6.

- Requires all participants in the new program to **work within two years** of starting to receive assistance. Illinois can opt to require families to work sooner. Workers who have children under age 6 and cannot secure child care are exempt from the work requirement.

- Requires Illinois to have at least 25% of its single parent families working by FY1997, and 50% by FY2002. For two parent families, 75% must be working by FY1997 and 90% in FY1999. If Illinois does not meet these **work participation goals**, federal funds will be reduced.

*** Effective dates:* *Funding changes: October 1, 1996; Program changes: July 1, 1997.*****

Assessment: While the loss of federal funds in the first year of the cash assistance program is not significant, in future years, Illinois is likely to not have enough funds to support this program because the work participation, child care and other requirements are likely to create a more expensive program. Illinois will have to invest significant new funds to prepare low-skilled workers to permanently move from welfare to work. The loss of the federal guarantee of benefits could mean the denial of support for low-income children during periods of state budget crisis.

Facts About Low-Income Families in Illinois

- In Illinois, 1 in 5 children live in poverty.
- The poverty level for a family of three is about $13,000 a year.
- Of children in poverty, more than 1 in 4 live in a family where a parent works year round.
- There are 475,000 children in 325,000 families currently participating in the AFDC program.
- Only 16% of AFDC families live in subsidized housing.
- Of parents on AFDC, about 1/2 have not completed high school.
- For every 1 entry level job, there are 4 AFDC recipients and low-skilled unemployed persons looking for work.
- The average cost of child care is $366 a month -- about 60% of what a minimum wage earner brings home.

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Food Stamps and Child Nutrition

Many low-income families struggle to put nutritious meals on their table. Studies show that when children go hungry, they have difficulty concentrating in school, and when adults go hungry they are more likely to miss work[1]. Children enrolled in nutrition programs rely on school lunches for 1/3 to 1/2 of their daily nutritional intake[2].

The key programs that help to reduce hunger among low-income families are the food stamps, school nutrition and child care food programs. The Food Stamp program is fully funded by the federal government and administered by the state. In Illinois, more than 500,000 households receive food stamps and more than 1/2 of recipients are children. In 1994, more than 929,000 Illinois school children received a subsidized school lunch.

Contrary to much of the discussion during the past six months, the welfare bill does not create a block grant for these programs, but does alter them significantly. The federal welfare bill:

- **Cuts more than $23 billion** over six years from this program. Two-thirds of this will come from families with children. Illinois families will have their food stamps reduced by about $356 per person in 1998. The reduction in food stamp benefits will be deeper in future years.

- Creates **cooperation rules** where parents who owe child support must beup to date in payments in order to be eligible for food stamps. Women who do not cooperate with the agency by providing information on the father of her children will also lose food stamp benefits.

- Eliminates federal matching funds for **food stamp outreach** efforts. Allows Illinois to treat food stamps as "cash" and use as a **wage supplement**.

- **Limits food stamp program eligibility** to three months of every three years for able-bodied, childless adults who are not working.

- Cuts **reimbursement rates** for child nutrition programs and ends **start-up and expansion** grant programs.

- Creates a **two level system of reimbursement** for the child care food program. Requires program providers to **verify that families meet income requirements** in order to receive reimbursement for meals served at the program.

- Allows Illinois to create **citizenship verification** for participants in WIC, child and adult care food, and summer food programs. If federal legislation to bar non-citizen children from public schools is passed, citizenship will be checked in order to participate in any school nutrition program.

** ***Effective dates:*** *Funding changes: October 1, 1996; Program changes: July 1, 1997.* **

Assessment: The food stamp program is not part of the Illinois budget, therefore the state will not face a "loss" of funds. However, the cuts are real and will come directly out of the pockets of low-income families. Child care providers will have the additional burden of verification of income and citizenship status causing some providers to not participate in these important nutrition programs.

Child Care

Child care is critical to enabling families to move from welfare to work. However, quality child care is often too expensive for low-income families to secure, and their children end up in less than adequate care environments.

Currently, there are a number of child care programs that help to prevent families from sliding onto welfare, provide support while parents are improving education and skills, and support efforts to move off welfare. In 1995, about 20,000 children participated in JOBS child care, 5,000 in Title IV-A and 18,640 in Direct Pay -- three of the child care programs which serve low-income families. In addition, there are federal funds targeted at reducing the cost of child care for working-poor families. Illinois budgeted $135 million in federal funds for these programs in FY1997.

The federal welfare bill limits funds for child care and simultaneously increases the need for these programs. The federal welfare bill:

- Ends the federal-state partnership which guaranteed support of low-income families by providing access to child care. Provides Illinois a lump sum payment (referred to as a **block grant**) of about $131.5 million in FY1997 to meet the needs of low-income families. The grant amount is scheduled to rise slightly over the next seven years.

- Sets up **two child care funding streams** for states. The first, the Child Care and Development Block Grant (known as **CCDBG**), will continue to support child care for working poor families. The second is an "**entitlement to states**" that requires matching funds and will be targeted at families at risk of sliding onto welfare and families working their way off welfare.

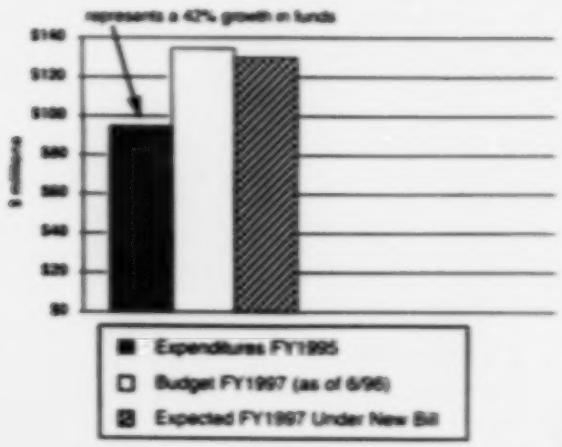
- Maintains the practice of setting aside a small amount of funds to **improve quality** in child care settings and keeps in place some **health and safety standards**.

** ***Effective dates:*** *Funding and program changes: October 1, 1996.* **

Assessment: By forcing cash assistance recipients to work, as many as 139,000 parents with children under six will need child care. Illinois will receive a slight decrease in the FY97 federal funds for child care. However, given the growth in the need for child care and the federal work requirements, the funds will be inadequate. Reductions in funding could further erode the quality of child care.

Federal Funds for Child Care

Illinois



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Medicaid and Supplemental Security Income

Securing health care is critical for all families. Low-income families often have difficulty securing health care because many low-wage employers do not offer health insurance or it is too expensive for the family to purchase.

Medicaid and Supplemental Security Income (SSI) help to meet the health care needs of low-income and disabled children in Illinois. Medicaid pays for the health care of more than 650,000 Illinois children. SSI provides cash assistance to families with disabled children. There are about 48,000 children receiving SSI in Illinois. Currently, individuals eligible for AFDC or SSI program are automatically eligible for Medicaid.

Contrary to much of the discussion this year, the bill does not block grant these programs or eliminate the health care entitlement. The federal welfare bill:

- Continues **guarantee of Medicaid coverage** for all women and children who qualified for the program under the June 1996 eligibility rules.
- Maintains the policy of providing **transitional Medicaid** for families leaving the cash assistance program for 12 months.
- Allows Illinois to **deny Medicaid to adults** who lose cash benefits because they do not meet work requirements.
- Ends the **Individualized Functional Assessment** for children and changes definition of "disability." Because disability is verified every year, this will lead to a loss of SSI benefits for approximately 9,400 children in Illinois.
- **Does not preserve** Medicaid coverage for children who lose SSI benefits.

** *Effective dates: Program changes: July 1, 1997.* **

Assessment: Although reforming the Medicaid system received much discussion over the past year, it is important that the welfare bill does not create a block grant for either Medicaid or SSI. However, the change in disability assessment will be problematic for children, especially those with combined disorders and behavioral problems. These changes will be particularly hard on working families who are not eligible for Medicaid because they are working and whose children may lose benefits because of a change in the definition of disability.

Child Support Enforcement

Helping families receive the child support they are due is critical to moving families off welfare. The federal government currently provides matching funds to states to enforce child support. That is, for every $1 the state spends on child support enforcement activities, the federal government reimburses the state at least 50¢. All families can be part of the public system.

There are currently 556,000 Illinois families part of the public child support enforcement system. One out of three cases have paternity established -- the first step to child support enforcement. Of the cases that have paternity established and a support order in place, only 36% have received any payment.

The welfare bill does not alter the funding of child support enforcement but does create a number of new rules and requirements for families and states. The federal welfare bill:

- **Mandates new hire reporting and central case registry** systems that could be used to improve the efficiency of state child support enforcement

activities. It is estimated that new hire reporting could increase support to families by $25 million.

- Creates a new **federal-state registry** of support orders and new hires to improve interstate tracking of dead-beat parents.

- Expands **paternity establishment** procedures by enabling Illinois to set up a voluntary paternity establishment program--see *Illinois Waivers*.

- Eliminates the practice of providing families in the cash assistance program $50 of the child support monies collected on their behalf (referred to as the **pass-through**). Nearly 19,000 low-income families will lose this benefit starting October 1, 1996.

** ***Effective dates:*** *Funding Changes: October 1, 1996. Program changes: January 1, 1997.* **

Assessment: There are many positive aspects to the child support provision of the welfare bill. The bill enables Illinois to use new tools, including a directory of newly hired workers and a central case registry, to improve the enforcement of child support at the state level. However, the elimination of the $50 pass-through penalizes low-income parents who have "played by the rules" and helped the state secure child support.

Welfare Waivers in Illinois

The federal government has allowed states to apply for changes or waivers in welfare program rules. States applied for waivers to limit benefits to parents who have an additional child, expand the kind of work activity that can be reimbursed by the federal government, and other activities. The welfare bill passed by Congress allows for the continuation of already approved welfare rule waivers even if these programs are inconsistent with the new bill. Illinois has a number of waivers already in place including:

- *The Work Pays Initiative*: Allows employed AFDC clients to keep more of their cash assistance while they move into work. For every $3 of income earned, a client's AFDC grant is reduced by $1. Families working their way off welfare have increased from 6% in late 1993 to about 20% in mid-1996. Under Work Pays, families also remain eligible for medical coverage, child care payments and food stamps.
- *Paternity Establishment:* Requires participants to provide information on parents who owe child support, including name, social security number, address of workplace, or risk losing cash assistance.
- *Targeted Work Initiative:* Requires 17,000 AFDC clients with older children to find work and stay employed or lose part or all of their benefits after two years.
- *Get a Job:* Requires new applicants with children ages 5-12 to search for a job or lose benefits after 2 years.
- *Family Cap:* No mother on AFDC will receive more cash benefits for additional children. Food stamps and Medicaid are not affected.
- *Teen Parent Requirement:* Unmarried parents under age 18 must live with a parent, adult relative, legal guardian, in a supervised living arrangement or apply to be exempt to receive AFDC.
- *School Attendance:* Families of truant elementary school children may lose their AFDC eligibility if attendance does not improve. Parents under 18 years of age who have not completed high school are required to enroll in school or a GED program.

Immigrants

The welfare bill creates a number of special provision for legal immigrants. There are 550,000 non-citizen, legal immigrants in Illinois. The welfare bill effectively ends supports for immigrant families in need. The federal welfare bill:

- Bars legal immigrants from receiving **Food Stamps or SSI** unless they are a U.S. veteran, until they have worked and paid into the Social Security system for 10 years, or they become a citizen. It is estimated that this will impact 40,000 food stamp recipients and 22,000 families receiving SSI.

- Allows Illinois to bar most legal immigrants from **cash assistance, child care, job training, Medicaid** and other programs. Requires Illinois to bar undocumented immigrants from many state and local programs.

- **Bans the receipt of federally means-tested benefits for 5 years** for new immigrants. Upon entering the U.S., a new immigrant will have to name a sponsor whose income and assets can be used to support the family for up to five years.

** ***Effective dates:*** *Program changes: upon enactment. Immigrants currently receiving benefits will be able to do so until January 1, 1997.* **

Assessment: Eliminating all benefits for legal immigrants will seriously jeopardize thousands Illinois families. Many of these families are working and paying taxes but because of new regulations they will be unable to access public benefits. This change will be felt first by the families who may go without needed services and, then by local governments which will be faced with meeting their needs.

Key Questions

The federal welfare reform bill significantly changes programs for low-income families. Illinois faces the challenge of developing programs that both support families and move them to economic self-sufficiency. Voices for Illinois Children encourages state policy makers and people across the state to consider:

- How will Illinois provide adequate temporary income support that enables a parents to care for their family and move from welfare to work, given limited federal funds, requirements to find employment, and an increasing number of families needing child care and health care?

- How will the state work with the private and non-profit sector to educate, train and prepare these parents for employment?

- Are enough jobs available? Should the state adopt more aggressive job creation strategies?

- Most entry level jobs have few benefits and do not pay enough to cover child care and health care. How will the state enable families to secure these vital services while moving off welfare?

- Parts of the bill requires that care providers now begin checking for income and citizenship eligibility. How will the state ensure that this change does not erode an already insufficient supply of child care and other services?

- Recently, Illinois has developed a new child welfare policy which moves some families, that would have been part of the child welfare system, into the AFDC system. How will the changes in income support programs affect these families?

- How will Illinois support immigrant families in need? Will caring for immigrants be shifted to the local level? Are local governments prepared for

this and other shifts in responsibility?

- Research shows that using positive incentives rather than sanctions increases the chances that families will meet program goals. Will the state work to create incentives that encourage families to move from welfare to work?

- Receipt of cash assistance and employment and training services paid for through the cash assistance block grant is limited to five years. If the state pays for other social services with these funds, it will also be counted towards the lifetime limit. How will the state develop programs and use federal funding to support families over time?

- These changes will have an impact on many state and local programs. How will the state involve parents, community members, service providers and others in the planning development and decision-making process?

Additional Resources

The following is a list of additional sources of information on the welfare bill and its impact on children and families.

Center for Law and Social Policy -- has prepared detailed descriptions of the cash assistance, child support enforcement, and the child care provisions of the bill. (202)328-5140

Center on Budget and Policy Priorities -- has prepared several detailed descriptions of the welfare bill, including food stamps, cash assistance, child care and immigrant provisions. (202) 408-1080.

Day Care Action Council of Illinois -- has information on the changes in the child care portion on the welfare bill. (312) 561-7900.

Food Research and Action Center-- has completed a description of the food stamp changes contained in the bill. (202) 986-2200.

SSI Coalition -- has information on changes to the SSI program and issues facing disabled persons. (312) 223-9600.

Welfare Reform Information Center -- has information on the specific provisions of the welfare bill. (312) 263-3830.

This *Special Report* was authored by Ami Nagle. For more information about this topic and other state fiscal issues please call Voices for Illinois Children at (312) 456-0600.

Special thanks to Dan Lesser and John Bouman at the National Clearinghouse for Legal Services, Nancy Shier at Kids PEPP, Kathy Blasi at Day Care Action Council, Lana Hostetler at Lincolnland Community College, Rob Paral at the Latino Institute and Kathryn Crystal Foster at the National Association of Child Advocates for their assistance in developing estimates and reading drafts of this report.

Voices is a non-profit, non-partisan, citizen-based advocacy group addressing problems faced by Illinois children and their families. Through research, public education and coalition-building, Voices generates support from civic, business and community leaders for cost-effective and practical proposals to improve the lives of Illinois children. This Special Report is produced as a part of Voices' State Finances Project. The State Finances Project is supported through grants from the Ford Foundation, the Annie E. Casey Foundation and the Woods Fund of Chicago, Inc.

Endnotes

1. Meyers, A.F., A.E. Sampson, M. Weitzman, B.L. Rogers, and H. Kayne, "School Breakfast Program and School Performance". American Journal of Diseases and Children 143, 1234 (October 1989).

2. United States Department of Agriculture. The National Evaluation of School Nutrition Programs. 1983.